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SUBJECT: JAMAICA'S TOURISM BOOM

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11. Summary: Tourism figures for 2006 show tourists flocking to Jamaica in record numbers. Visitor arrivals for 2006 broke the psychological three million barrier for the first time, while earnings of USD 1.9 billion also soared to new heights. The diversion of a number of visitors from Cancun following the ravages of hurricane Wilma and increased marketing efforts were the underlying factors for the record performance. The impressive arrival figures were accompanied by a surge in foreign direct investment, with the room stock set to increase by 40 percent. The interest in Jamaica is being driven by Spanish investors who appear to be attracted to the North American source market. But while this massive investment is welcome in some circles, concerns abound about its likely impact on smaller hotels. Visitor arrivals should, at best, remain flat for 2007, but performance could pick up in 2008 as the policy-related shocks dissipate and Cancun slows its successful discounting campaign designed to lure tourists back. End summary.

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The Raw Numbers  
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12. Data from the Jamaica Tourist Board (JTB) show that the island's tourism industry had a record year in 2006. All the performance indicators point to an industry in growth mode, despite rising crime and harassment. Arrivals for 2006 broke through the three million barrier (up 16.5 percent), the highest level of arrivals recorded in a single year. The sector, which registered two million visitors in 1999, has expanded by a remarkable 50 percent in just seven years. And it is the more economically appealing stop-over segment, up 18.7 percent to 1.7 million, which has been providing the impetus for growth. Cruise arrivals, up 17.7 percent to 1.4 million, also contributed handsomely to the upswing. The buoyancy in stop-over arrivals was due to: (1) the diversion of visitors from Cancun following the ravages of hurricane Wilma in 2005; (2) marketing initiatives by hotel chains and the JTB; (3) the increase in the room stock coupled with rising airlift; and, (4) the continued economic bullishness in major source markets. Cruise arrival was driven by increases in both the number and size of ships, with three new "mega-vessels" calling during the year.

13. Revenues also broke new ground, climbing by 22.1 percent to USD 1.9 billion. Just over USD 1.7 billion or 93.7 percent of total earnings was attributed to stop-over arrivals (USD 1,054 per visitor) with the remaining USD 188 million coming from cruise visitors (USD 88.3 per visitor). Earnings for 2006 climbed for the fourth consecutive year, confirming the sector has fully recovered

from the sluggishness that characterized the sector following the 2001 terrorist attacks. At this level of earning, the tourism sector has overtaken remittances as the number one foreign exchange earner after being displaced for the last two years. The sector has therefore cemented its position as the main pillar of the Jamaican economy.

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Performance Wanes in 2007  
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¶4. But after growing handsomely in 2006, both visitor arrivals and earnings dipped during January to March 2007. Stop-over arrivals declined by 2.1 percent, reflecting lower arrivals from the United States, down 12.1 percent. Overall arrivals would have been worse, but for a bounce from Canada (up 32.8 percent) and Europe (up 15.7 percent). The bend in the growth trend is disturbing to tourism stakeholders, who initially blamed the shock on the Western Hemisphere Travel Initiative (WHTI). However, immediate past president of the Jamaica Hotel and Tourism Association (and Sandals hotelier) Horace Peterkin told emboffs that while WHTI affected performance, the imposition of a temporary CARICOM Visa for Cricket World Cup was a bigger fiasco, given that it was an internal policy decision. Peterkin's opinion was backed up by Evatt Bloomfield of the Sunset chain and Steve Ueker of the Half Moon hotel.

¶5. It is the return to normality in Cancun which appears to be the underlying reason for the drop. With Cancun using the opportunity to refurbish after Wilma, the destination is back in the market with an improved product offered at bargain prices and has retaken lost market share from countries like Jamaica. This sentiment was confirmed by Peterkin and echoed by all the major hoteliers emboff spoke to in Jamaica's resort areas. The figures seem to bear this out, as arrivals for the first quarter of 2007 are ahead of arrival for the similar period of 2005. GoJ officials also posit that the anticipated crowds for CWC, which did not materialize, and the travel advisory issued by the USG for the event would have scared some visitors from the island during the competition.

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"Spanish Invasion"  
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¶6. Within the last five years Jamaica has witnessed a massive transformation of its tourism landscape due to a sudden spike in interest by Spanish investors. The current wave of Spanish investment is paralleled only by the bauxite investments of the 1950s and 1960s. Since 2002 six Spanish hotel groups have started construction of 20 hotels, comprising almost 10,000 rooms to be added to the existing stock of 21,000, an almost 50 percent expansion. The hotels are all concentrated along the north coast of the island, stretching from Ocho Rios to Negril. The ACS Group out of Spain is also investing heavily in modernizing an international airport, a strategic tool for expanding airlift and by extension arrivals. The Spanish investment is expected to surpass USD 1.5 billion, allowing Spain to unseat the U.S. as Jamaica's largest source of FDI in the last five years.

¶7. What has become commonly known as the "Spanish Invasion" is complemented by a host of other foreign and local investments. In one small, unspoilt section of the north coast, an additional 12 hotels, including the high-end Harmony Cove, with significant U.S. interest, are slated for construction. Other luxury developments including the world famous GoldenEye (USD 80 million) and the Tryall Country Club (USD 150 million) are undergoing expansion. The picturesque parish of Portland could also experience a similar transformation to that taking place on the north coast once infrastructural work is completed. Canadian-Jamaican billionaire Michael Lee Chin and Sandals' Gordon "Butch" Stewart have already taken positions in the area, which boasts a new marina.

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But Why the Sudden Interest?  
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¶18. There has been much speculation about the reasons for the sudden interest from Spanish investors who have been operating in the nearby Dominican Republic and Mexico for years. Hoteliers like Roger Allen from Crane Ridge Resorts is convinced that the Spanish chains are into budget tourism and have seized the opportunity to locate in Jamaica to benefit from the captive North American market.

This position is shared by other local hoteliers and was actually confirmed by the Spanish hoteliers who told emboffs that they depend on North America for up to 70 percent of their visitors. Critics like Allen also argue that the Spanish investors have been offered huge incentives, including hassle free approvals, while local hoteliers are left to languish. This complaint is likely valid. When asked about the reasons for the influx of investment, Daniel Hofer of the Iberostar group made reference to the special role played by the island's promotions agency, JAMPRO. But Hofer also attributed the sudden interest to Jamaica's reputation built on brands such as Bob Marley and Kool Runnings. He also stated that once a major chain invests in a country, others tend to follow, a situation referred to as the "flying geese pattern" in FDI literature.

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So Will the New Investment Increase the Pie?  
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¶19. Supporters of the Spanish armada argue that the record investment represents the opening of new markets for Jamaica, as most of the Spanish groups are linked to major tour operators with a long history of marketing products and destinations in Europe, which could lead the diversification of the Jamaican product. But while this assertion is theoretically appealing, the reality appears to be different. Hofer told emboffs that the North American market will be big for his hotel, and based on his business model he would be competing against hotels such as the Ritz Carlton. And these hotels, which have developed a winning business model based on economies of scale, have already begun to cannibalize smaller properties, with Allen already seeing a plunge in occupancy levels even relative to 2005. Bloomfield also thinks the additional 15,000 rooms will cause the tide to fall for everyone. From all indications, therefore, the pie is not expected to grow significantly due to the influx of these chains, as it would appear that their business model is based on operating a lean business, which can deliver cheaper prices to lure North American visitors to their properties.

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Future can be Bright  
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¶10. That said, the increased competition augurs well for Jamaica, as it will force other hotels to improve their efficiencies and both visitors and the economy can only benefit from this development. And the increased investment and by extension competition is not expected to dissipate anytime soon, given the number of investors lining up to get a piece of the action. Frank Sodern of the Spanish RIU Group, which has three hotels in operation and is building another two, thinks the industry is still in the start position and investment will continue to grow for some time yet. This position was echoed by Hofer, who anticipates a continuation of the Spanish investment for another five to ten years, with new chains entering the market. And he expects this growth to provide a much-needed boost for the economy, while also attracting service chains such as Walmart. He also pointed to the linkages to be made with the agricultural and manufacturing sectors. Sodern has also brought a new flavor to the all-inclusive product, with visitors being encouraged to leave the safety of the concrete walls to explore the rest of the island. And despite Sodern's inherent vested interest (with visitors off property food and beverage consumption decline) the gesture can only lead to increased visitor expenditure and further extend the linkages.

¶11. But this approach is fraught with danger, as any mishap could

become a fiasco for the all-inclusive niche developed in response to the bad publicity associated with the tumultuous 1970s and more recently to "isolate" visitors from spiraling crime. Only recently, a number of cruise passengers in Hanover parish were held at gunpoint, and the country is now suffering the effects of the bad publicity. Environmentalists and some industry players have also blamed rising incidences of squatting and the associated problems of harassment and crime on the construction of the megastructures being put up by the Spanish chains (Post will report septel on environmental issues). Additionally, Hofer's optimism is not necessarily shared by local hoteliers, as Jackie Sinclair of the relatively small Gloucestershire hotel told emboffs that there is a definite bias against indigenous properties, which do not get most of the incentives extended to foreign investors. When asked specifically about the future of the industry, Peterkin was also less than upbeat, saying it depended on the political leadership moving forward. However, he did admit that with the right vision the sector could make a quantum leap in less than a generation.

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Comment  
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¶12. Jamaica's tourist industry should remain flat for the remainder of 2007, with unpublished figures suggesting a continued fall off. A JTB official told emboff that preliminary indications are that the sector continues to suffer from the WHTI and the lag effects of the temporary CARICOM Visa. The official said that the situation would have been worse but for the ongoing surge in arrivals from Canada and Europe. Expectations are that once Cancun slows its discounting, the local sector could return to growth mode, albeit at lower rates. The additional rooms could also impact positively assuming they can be filled. But given the current challenges, the fact that Jamaica continues to be a leading tourist destination is in and of itself astounding. This confirms that the island has huge comparative advantages in tourism services and, if the country's problems could be arrested, the possibilities for investment, growth, and earnings could be endless.

JOHNSON